



COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY

TO: City Council Members

FROM: Allison Rowland
Budget & Policy Analyst

Item Schedule:
Briefing: May 7, 2024
Public Hearing: May 21, 2024
Potential Action: June 4, 2024

DATE: May 7, 2024

RE: RESOLUTION: AUTHORIZING ASSISTANCE FOR FAIRMONT HEIGHTS SENIOR HOUSING DEVELOPMENT AT 2257 SOUTH 1100 EAST

ISSUE AT-A-GLANCE

The Council will be briefed on an informal public benefits analysis conducted by the Administration to evaluate the possibility of offering either a lease or a loan to a development project called Fairmont Heights, at 2257 South 1100 East. The project would provide approximately 110 units of new affordable senior housing on a 0.81-acre property. The Administration intends to use \$5,633,510 in one-time, “dormant” funds from the Community Development Block Grant (CDBG) program, which the Council allocated to an affordable housing use as part of the Fiscal Year 2024 budget. A public hearing is required by City and State code on any public benefits analysis or proposal for below-market-rate assistance. This has been scheduled for May 21, 2024.

The Administration also requests formal Council approval to proceed with a ground lease or loan for the Fairmont Heights project, which would allow the developers to meet the application deadline for 9% LIHTC (Low-Income Housing Tax Credits) credits. Council action is tentatively scheduled for June 4, and conducting the straw polls on three questions listed in the Policy Questions section (below) would further facilitate the developers’ application process. The project also was awarded a \$1,000,000 loan through the Redevelopment Agency (RDA) Housing Development Loan Program.

Goal of the briefing: Review the public benefits analysis and consider straw polling three questions: to approve the public benefits analysis; to determine that City assistance is appropriate; and, to authorize the Administration to negotiate the final terms of the transaction.

ADDITIONAL BACKGROUND AND INFORMATION

A. Project Overview and City Funding Options.



1. **Project Overview.** Specifics of the project have not changed from the two proposals submitted for the 2024 Affordable Housing Notice of Funding Availability (NOFA), and the High-Opportunity NOFA. Currently, the Administration plans to purchase a 0.81-acre property at 2257 South 1100 East for the development of a housing project with the following characteristics:
 - Intended for seniors aged 62 and up.
 - Approximately 110 one- and two-bedroom units, in two buildings.
 - About 80% of the units would be affordable to households at 80% or less of area median income (AMI).
 - About 50% of the units would be affordable to 50% or less of AMI.

In response to a staff question about the relatively high cost-per-unit of this project (the highest of the 15 applications to the NOFA), HASLC's executive director noted three factors:

- High land costs in the heart of Sugarhouse;
 - Dated initial estimates from over a year ago that are now being updated for the much more competitive 2024 construction pricing market; and,
 - The need for a full parking structure underneath one building, which will accommodate both phases of the project.
2. **Ownership Structure.** The development would be operated directly or indirectly by the Housing Authority of Salt Lake City (HASLC). Ownership would be split in a limited partnership between two entities:
 - Lincoln Avenue Communities, an affordable housing developer which is located in California and part of a Lincoln Avenue Capital, LLC, a private equity company; and
 - Housing Assistance Management Enterprise (HAME), which is a 501(c)(3) affiliated with HASLC. HAME would be the lessee of the ground lease if approved by the City Council, and would entitle, finance, permit, and commence construction on the first phase of the project by June 30, 2026.
 3. **Previous Funding.** In its role as the RDA Board, the Council approved a \$1,000,000 loan from the Housing Development Loan Program (HDLP) to Lincoln Avenue Communities for acquisition and construction costs for the project. Preliminary terms for that project were approved at the same time. In response to a Council staff question, CAN clarified the following:

“If the Council approves the ground lease structure, HAME/Lincoln may be interested in utilizing the RDA loan as their contribution to the purchase price, which is effectively [equivalent to] their prepayment for the first 20 years of the ground lease. However, we will need to clarify with the RDA to ensure that would be allowed under the current RDA Board approval. This would free up their other capital for predevelopment costs (architecture, engineering, etc.). However, they are prepared to contribute their own capital at closing if this is outside of the RDA Board approved parameters.”

- B. **Options for City Funding.** The Administration intends to use \$5,633,510 in one-time, “dormant” funds from the CDBG program run by the Housing Stability Division, which is located in the Community and Neighborhoods Department (CAN). By way of reminder, these funds were in unallocated accounts managed by the Housing Stability Division. In order to comply with HUD regulations, the City agreed to prioritize expenditure of these funds in allowable areas, one of which is senior housing. The Council and the Administration agreed to designate these funds to acquire property suitable for an affordable housing development by either the City/RDA or the Housing Authority of Salt Lake City (HASLC).

As the Administration negotiates final terms with the developer, it will determine which of the two following two options for making the proposed Fairmont Heights property available for development is more advantageous.

1. The Administration's preferred option is the below-market ground lease of the property, specifically, in the form of a 99-year below-market ground lease.
2. A second option would be a below-market interest rate on an acquisition loan, which would convert to a permanent loan at below-market interest rate once construction is complete.

The Administration plans to determine which of these two options is more advantageous as it negotiates final terms with the developer. Its preference is the below-market ground lease.

- C. **LIHTC Application.** The developers intend to apply for 9% LIHTC credits, and applications are due on June 11. Because HAME is a nonprofit entity, the City is allowed to waive the fair-market rental rate ordinarily required for use of City-owned property, after a public hearing about the waiver and Council authorization of the land lease agreement. The land lease structure would make the tax credits more viable. The developer seeks formal approval for the ground lease structure by the City Council prior to this deadline, and Council action is tentatively scheduled for June 4.

- ***Straw polls listed in the Policy Questions section would be helpful to provide direction to HAME on how to frame the project in their LIHTC application, that is, as a loan or ground lease.***

D. The Public Benefits Analysis.

1. **Legal Framework.** Utah Code requires that a municipal legislative body must receive a public benefits analysis and hold a public hearing before deciding to appropriate any funds to any type of entity or individual other than a nonprofit entity. The public hearing for this item is scheduled for May 21, 2024.
2. **Public Benefits Identified.** In the informal Public Benefits Analysis, the Administration concluded that *"the numerous community benefits provided by the Project justify the use of the City's resources, and the Ground Lease payments, although below market-rate, will still return the City's initial capital investment and provide a revenue stream to the City over time."* The PBA identified the following specific public benefits received in exchange for a waiver of fair-market rent for a land lease (see transmittal Attachment B).
 - a. Geographic distribution of affordable housing for seniors near transit, healthcare, socialization opportunities, fitness centers, educational opportunities, fresh food, green space, and essential services.
 - b. Affordable housing promotes healthy aging in communities, especially for older adults who have limited incomes.
 - c. The project would provide rarely-available Federal funding for rental assistance for seniors, in the form of rent subsidy.
 - d. Support for numerous goals and objectives in Housing SLC (the City's Five-Year Housing Plan) and Thriving in Place (the City's anti-displacement plan): new units of affordable housing, geographic distribution of affordable housing, partnerships with the HASLC, housing for seniors, long-term affordability, and access to transit.

- E. **Council Priorities.** The Fairmont Heights project would match several Council priorities, including transit-accessible affordable housing for seniors, and the geographic distribution of affordable housing development. The project would also apply to goals and objectives listed in Housing SLC and Thriving in Place (see section on Accomplishing Salt Lake City's Goals in the transmittal).
- F. **Environmental Assessment.** To comply with U.S. Department of Housing and Urban Development (HUD) environmental standards the City is in the process of conducting an environmental assessment on the property. This will ensure the correct noticing and mitigation standards are met.

POLICY QUESTIONS

To facilitate the developers' application for 9% LITHC consideration, the Council could consider the following straw polls:

1. Does the Council support adopting a resolution which would approve the informal public benefits analysis?
2. Has the Council determined that City assistance is appropriate for this project?
3. Does the Council authorize the Administration to negotiate the final terms of the transaction, including the decision to provide \$5,633,510 for this project either through a below-market ground lease or a below-market interest rate on an acquisition loan, which would convert to a permanent loan.